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ANNUAL REPORT

OF

The Belt Railway Company

of CHICAGO

FOR THE

YEAR ENDED DECEMBER 31, 1977

THE BELT RAILWAY COMPANY OF CHICAGO

DIRECTORS

J. C. DAVIS , The Atchison, Topeka and Santa Fe Railway Co.	Chicago, Ill.
D. H. KING , Burlington Northern Inc.	Chicago, Ill.
R. G. RAYBURN , The Chesapeake and Ohio Railway Co.	Cleveland, Oh.
M. L. CASSELL , Chicago, Rock Island and Pacific Railroad Co.	Chicago, Ill.
K. F. KALSOW , Consolidated Rail Corp.	Chicago, Ill.
A. B. CRAVENS , Consolidated Rail Corp.	Chicago, Ill.
J. H. BURDAKIN , Grand Trunk Western Railroad Co.	Detroit, Mich.
H. F. DAVENPORT , Illinois Central Gulf Railroad Co.	Chicago, Ill.
R. E. BISHA , Louisville and Nashville Railroad Co.	Louisville, Ky.
C. R. LAPEZA , Louisville and Nashville Railroad Co.	Louisville, Ky.
H. S. VIERLING , Missouri Pacific Railroad Co.	Chicago, Ill.
R. F. DUNLAP , Norfolk and Western Railway Co.	Roanoke, Va.
T. R. KLINGEL , Soo Line Railroad Co.	Minneapolis, Minn.

EXECUTIVE COMMITTEE

R. E. BISHA, Chairman

J. C. DAVIS - R. F. DUNLAP - D. H. KING - H. S. VIERLING

OFFICERS

President and General Manager	R. E. DOWDY
Vice President and Controller	R. G. RUBINO
Secretary and Treasurer	G. D. MORIARTY
General Counsel	R. F. KOPROSKE
Assistant Secretary and Assistant Treasurer	R. A. ORLANDO

GENERAL OFFICES

6900 SOUTH CENTRAL AVENUE, CHICAGO, ILLINOIS 60638

ANNUAL MEETING - SECOND TUESDAY IN MAY

Chicago, Illinois
May 9, 1978

TO THE STOCKHOLDERS OF THE BELT RAILWAY COMPANY OF CHICAGO

The Annual Report of the company for the year 1977 is hereby submitted.

The operating revenues for the year were down 1.1% or \$205,087 compared to 1976. The decrease was in local switching and in intermediate switching. This decrease in local switching was partially due to reduced tonnage handled at the Rail to Water facility. However, it is felt that many of our customers are utilizing TOFC and over-the-highway vehicles more than in the past. The decrease in intermediate cars is reflected in our movements between the company and the Chicago and North Western. This is a direct result of shareholder roads creating direct interchange arrangements bypassing the Belt.

During the period of adverse weather, the use of the Belt for the movement of intermediate traffic increased substantially, however, we were able to handle it with a minimum of car delay. It must be pointed out that such brief heavy usage and a constant work force based on normal, lower usage, resulted in penalty labor costs. It is hoped by showing our connections we can handle their traffic during adverse conditions, that they will favor us with more traffic under normal operating conditions.

On the brighter side of the operation was the inauguration of a Santa Fe road train schedule between Clearing Yard and Argentine Yard in Kansas. Also, an additional road train was established by the Louisville and Nashville operating between Clearing and the Bone Valley in Florida. These new trains now give us ten outbound and ten inbound road trains operating daily at Clearing. With these trains we are able to expedite traffic through the gateway to and from all sections of the United States. We are continuing to try to encourage more roads to participate in this type of operation. The shareholder roads taking advantage of this service to date are the Santa Fe, ConRail, Louisville & Nashville, Missouri Pacific and Soo Line.

In November the company sold its interest in the Bedford Industrial Park Venture to our partner J. L. Williams Co., Inc. of Dallas, Texas.

During the year, S. T. Brown, J. T. Collinson, D. H. King, T. R. Klingel and R. E. Sullivan resigned from the Board of Directors. Their wise counsel and dedication is gratefully acknowledged.

The Board recognizes the cooperation and contributions of the employees during the year.

By order of the Board of Directors.

R. E. DOWDY
President and General Manager

REVIEW OF OPERATIONS

REVENUES:

Total operating revenues for the year were \$18,496,254, a decrease of \$205,087 or 1.10%. Intermediate and local switch cars handled in Belt Separate Operation comprise the principal source of revenues. Intermediate switching revenue decreased \$95,790 or 1.30% and local switching revenue decreased \$309,758 or 2.97%. Demurrage charges compared to 1976 were up \$183,237. This was due largely to non-recurring adjustments in the preceding year, coupled with a slight increase in detention time of cars held by industries.

During 1977, cars handled by Belt Railway totaled 863,919 compared to 842,801 in 1976, an increase of 21,118 cars. Notwithstanding anticipated improvement in the national economy during the coming year, 1978 results will depend largely on greater utilization of Belt's facilities by its shareholder railroad corporations.

Cars handled by Belt Railway and its shareholder railroad corporations totaled 1,293,213 in 1977 compared to 1,385,819 in 1976, a decrease of 92,606 or 6.68%. Intermediate cars handled decreased 11,892 or 5.07%; local loaded cars decreased 11,429 or 9.39%; and cars interchanged directly between Owner roads using Belt Railway terminal facilities increased 54,563 or 14.90%. Cars handled by Owner Lines in direct movements over Belt trackage decreased 113,724 or 20.94%, mainly due to the reduced operations of C & O at its Rockwell Street yard facility and the increased use by Owner Lines of Clearing Yard for connecting Owner Line road-train operations.

Fifteen industries were located during the year and thirty-three were vacated. This compared with fourteen located and thirteen vacated in 1976.

JOINT FACILITY RENT INCOME:

The increase of \$1,284,539 was due to the loss from terminal switching operations of \$964,952 for 1977 as against a gain of \$133,427 in 1976, coupled with the increased railroad retirement taxes billable to the proprietary roads.

OPERATING EXPENSES:

Total expenses in 1977 were \$24,760,711, an increase of \$2,055,165 or 9.05% compared to 1976. Payroll costs increased by \$1,064,838 due to higher wage rates granted in 1977 under industry wide labor agreements. The operating ratio of Belt Separate Operation was 87.99 compared to 82.36 in 1976.

Maintenance of Way expenses totaled \$5,041,784, an increase of \$445,828. This was principally due to an increase of \$154,152 for programmed track improvements, and increases in signal and interlocker expenses of \$118,762, snow removal of \$115,858 and higher wage costs of \$150,098; offset by decreases in other maintenance requirements. The Maintenance of Way portion of the operating ratio was 15.56 compared to 13.59 in 1976.

Maintenance of Equipment expenses totaled \$3,243,091, an increase of \$386,707. Major increases are reflected in locomotive repairs, \$328,844; and freight-train car repairs, \$88,115. The increase in locomotive repairs was attributable to restoring five locomotives from storage to active service and one additional holiday under national wage agreements compared to the preceding year. Car repair expense was up due to the increase in cars handled by the Company. Overall increase in wages amounted to \$102,801. These increases were somewhat offset by decreases in depreciation, insurance and superintendence costs. The Maintenance of Equipment portion of the operating ratio was 13.08 compared to 11.86 in 1976.

Transportation expenses totaled \$14,373,472, an increase of \$1,098,716. This was due to operational requirements relating to the increase in cars handled by the Company and higher wage costs of \$714,984. Other increase items were principally: locomotive fuel, \$132,877; employee health and welfare benefits, \$49,748; clearing wrecks, \$44,374; and settlements for injuries to persons, \$80,977; which, were offset by decreases in: insurance, damage to property, and the company's proportion of expenses for joint yards and terminals operated by other carriers. The transportation portion of the operating ratio was 52.10 compared to 49.89 in 1976.

General expenses totaled \$2,095,006, an increase of \$118,099. This was principally due to higher wage costs of \$96,956. This portion of the operating ratio was 7.21 compared to 7.01 in 1976.

Total operating expenses include amounts chargeable to others as their proportion of costs incurred by the Belt Railway Company in maintaining and operating jointly used tracks and facilities. Net operating expenses charged to Belt Railway Separate Operation are reflected on pages 6 and 16 through 19.

OTHER INCOME AND EXPENSES:

Interest income decreased \$25,426 and Income from sinking and other reserve funds decreased \$40,675. This was due to the reduction in funds available for short-term investments.

Miscellaneous income increased \$574,798. This was due principally to discount on company bonds reacquired in 1977 as compared to 1976 of \$128,970, and a non-recurring profit realized of \$491,720 from the sale of the Company's equity in the Bedford Industrial Park Venture.

Railway tax accruals increased \$242,787. Railroad retirement and unemployment taxes increased \$189,319 and \$104,299 respectively, but were offset by a decrease of \$73,798 in accruals for general property taxes.

Hire of freight cars decreased \$84,236, basically due to fewer cars handled by the Company which were subject to car hire payments.

RAIL TO WATER ACTIVITY:

Unit train coal rail to water transfer operations started on April 4th and ended December 8th. In 1976, the operations began on April 5th and ended December 9th. Coal tonnage handled through the facility totaled 3,034,976 tons in 1977 compared to 3,199,219 tons in 1976, a decrease of 164,243 tons. Other commodities handled through this dock facility - coke, clay and feed - totaled 400,451 tons compared to 281,627 tons in 1976, an increase of 118,824 tons. Total tonnage for the year decreased 45,419 tons compared to 1976.

PROPERTY IMPROVEMENTS:

Rail replacements in 1977 consisted of 2,910 tons of new and 1,181 tons of secondhand rail. There were 15,693 new cross ties and 168,467 feet B.M. of new switch ties installed. The in-track welding program started in 1974 was continued in 1977 with an additional nine miles of main track and five miles of yard track being welded by this process. Other changes in road and equipment are reflected on pages 14 and 15 of this report.

STATEMENT OF INCOME

Year ended December 31	1977	1976	Increase or (Decrease)
RAILWAY OPERATING REVENUES:			
Intermediate switching	\$ 7,264,184	\$ 7,359,974	\$ (95,790)
Local switching	10,102,768	10,412,526	(309,758)
Demurrage	1,037,458	854,221	183,237
Rents of buildings and other property	300	300	-
Miscellaneous	91,544	74,320	17,224
Total railway operating revenues	18,496,254	18,701,341	(205,087)
RAILWAY OPERATING EXPENSES:			
Maintenance of way and structures	2,878,437	2,542,205	336,232
Maintenance of equipment	2,419,135	2,218,187	200,948
Traffic	8,037	2,342	5,695
Transportation-Rail line	9,634,780	9,330,121	304,659
General (Note 6)	1,334,299	1,310,415	23,884
Total railway operating expenses	16,274,688	15,403,270	871,418
Net revenue from railway operations	2,221,566	3,298,071	(1,076,505)
RAILWAY TAX ACCRUALS:			
General property	328,658	402,456	(73,798)
Federal Income (Note 3)	-	-	-
State Income	21,511	-	21,511
Retirement	2,391,556	2,202,237	189,319
Unemployment	324,160	219,861	104,299
Other	16,841	15,385	1,456
Total railway tax accruals	3,082,726	2,839,939	242,787
Railway operating income (loss)	(861,160)	458,132	(1,319,292)
RENT INCOME:			
Rent from locomotives	13,149	17,512	(4,363)
Rent from work equipment	509	1,106	(597)
Joint facility rent income (Note 1)	2,841,418	1,556,879	1,284,539
Total rent income	2,855,076	1,575,497	1,279,579
RENTS PAYABLE:			
Hire of freight cars	715,491	799,727	(84,236)
Rent for locomotives (Note 5)	188,640	188,640	-
Rent for work equipment	-	-	-
Joint facility rents	98,258	102,633	(4,375)
Total rents payable	1,002,389	1,091,000	(88,611)
Net rents	1,852,687	484,497	1,368,190
Net railway operating income	\$ 991,527	\$ 942,629	\$ 48,898

See notes to financial statements.

STATEMENT OF INCOME - concluded

Year ended December 31	1977	1976	Increase or (Decrease)
OTHER INCOME:			
Income from lease of road and equipment . . .	\$ 96,218	\$ 117,284	\$ (21,066)
Miscellaneous rent income	340,364	342,396	(2,032)
Income from non-operating property	63,913	64,916	(1,003)
Interest income	16,934	42,360	(25,426)
Income from sinking and other reserve funds	41,252	81,927	(40,675)
Miscellaneous income (property sales and company bonds reacquired)(Note 4) . . .	827,775	252,977	574,798
Total other income	1,386,456	901,860	484,596
Total income	2,377,983	1,844,489	533,494
MISCELLANEOUS DEDUCTIONS FROM INCOME:			
Miscellaneous rents	146	146	-
Miscellaneous tax accruals	33,017	41,046	(8,029)
Miscellaneous income charges	12,968	40,166	(27,198)
Total miscellaneous deductions	46,131	81,358	(35,227)
Income available for fixed charges	2,331,852	1,763,131	568,721
FIXED CHARGES:			
Rent for leased roads and equipment	2,259	2,259	-
Interest on funded debt	1,742,782	1,728,308	14,474
Amortization of discount on funded debt . . .	4,971	4,971	-
Total fixed charges	1,750,012	1,735,538	14,474
Net income (Note 1)	\$ 581,840	\$ 27,593	\$ 554,247
Net income per share	\$ 18.65	\$.88	\$ 17.77

STATEMENT OF RETAINED INCOME

1977

1976

Balance at beginning of year	\$ 2,666,584	\$ 2,638,991
Net income (Note 1)	581,840	27,593
Balance at end of year	\$ 3,248,424	\$ 2,666,584

See notes to financial statements.

BALANCE SHEET

Assets	December 31, 1977	December 31, 1976	Increase or (Decrease)
CURRENT ASSETS:			
Cash.....	\$ (357,904)	\$ 600,030	\$ (957,934)
Temporary cash investments.....	1,000,000	296,738	703,262
Special deposits	2,564	2,657	(93)
Traffic and car-service balances	705,269	694,286	10,983
Net balance receivable from agents and conductors	208,468	233,286	(24,818)
Miscellaneous accounts receivable.....	2,761,533	2,520,380	241,153
Interest and dividends receivable.....	14,609	26,106	(11,497)
Accrued accounts receivable	617,582	915,464	(297,882)
Working fund advances.....	2,040	2,040	-
Prepayments	243,711	276,253	(32,542)
Material and supplies (Note 1)	1,810,958	1,480,297	330,661
Total current assets.....	7,008,830	7,047,537	(38,707)
SPECIAL FUNDS:			
Sinking funds.....	-	-	-
Capital and other reserve funds	597,758	1,222,073	(624,315)
Insurance and other funds	17,000	17,000	-
Total special funds.....	614,758	1,239,073	(624,315)
INVESTMENTS:			
Other investments (Note 4)	-	1	(1)
PROPERTIES (Notes 1 and 7):			
Road	31,703,598	31,324,088	379,510
Equipment	6,328,077	6,290,312	37,765
Improvements on leased property	13,897	13,897	-
Total transportation property	38,045,572	37,628,297	417,275
Accrued depreciation - Road and equipment.	(9,430,226)	(9,042,988)	(387,238)
Total transportation property - Net.....	28,615,346	28,585,309	30,037
Miscellaneous physical property.....	6,111,995	6,111,995	-
Total properties - Net.....	34,727,341	34,697,304	30,037
OTHER ASSETS AND DEFERRED CHARGES:			
Other assets (Note 2)	1,024,119	671,487	352,632
Other deferred charges (Note 9).....	410,000	302,917	107,083
Total other assets and deferred charges ...	1,434,119	974,404	459,715
TOTAL ASSETS	\$ 43,785,048	\$ 43,958,319	\$ (173,271)

See notes to financial statements.

BALANCE SHEET

Liabilities and Shareholders' Equity	December 31, 1977	December 31, 1976	Increase or (Decrease)
CURRENT LIABILITIES:			
Note payable - bank 7.75% (Note 7)	\$ 685,951	\$ -	\$ 685,951
Audited accounts and wages payable	1,113,110	1,209,342	(96,232)
Miscellaneous accounts payable	237,767	216,348	21,419
Interest matured unpaid	2,564	2,657	(93)
Unmatured interest accrued	389,822	420,221	(30,399)
Accrued accounts payable	92,410	70,140	22,270
Federal income taxes (Notes 3 and 9)	-	-	-
Other taxes accrued	741,389	1,079,644	(338,255)
Other current liabilities	37,671	45,989	(8,318)
Total current liabilities (exclusive of long-term debt due within one year)	3,300,684	3,044,341	256,343
LONG-TERM DEBT DUE WITHIN ONE YEAR (Note 7):			
First mortgage bonds-Series A	-	714,000	(714,000)
Equipment obligations	8,125	32,500	(24,375)
Total debt due within one year	8,125	746,500	(738,375)
LONG-TERM DEBT (Note 7):			
First Mortgage 4-%% Sinking Fund Bonds, Series A, due August 15, 1987	23,428,000	24,575,000	(1,147,000)
Less unamortized discount on long-term debt	(48,457)	(53,428)	4,971
Equipment obligations	-	8,125	(8,125)
Amounts payable to affiliated companies	10,285,864	9,540,864	745,000
Total long-term debt	33,665,407	34,070,561	(405,154)
OTHER DEFERRED CREDITS:			
Other deferred credits	212,408	80,333	132,075
SHAREHOLDERS' EQUITY:			
Capital stock, common, \$100 par value, authorized 50,000 shares, issued and outstanding 31,200 shares (Note 8)	3,120,000	3,120,000	-
Paid - in surplus	230,000	230,000	-
Retained income	3,248,424	2,666,584	581,840
Total shareholders' equity	6,598,424	6,016,584	581,840
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 43,785,048	\$ 43,958,319	\$ (173,271)

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31	1977	1976
Source of Funds:		
Net income	\$ 581,840	\$ 27,593
Depreciation	409,673	446,640
Transportation property retired (non-depreciable) ...	20,560	43,373
Casualty and other reserves (decrease)	-	(1,188)
Funds provided from operations	1,012,073	516,418
Salvage from property retired (depreciable)	11,257	15,417
Miscellaneous physical property sold	-	7,344
Decrease in capital and other special funds	624,315	307,820
Decrease in other assets and deferred charges	-	204,416
Advances from affiliated companies	745,000	745,000
Increase in other deferred credits	132,075	-
TOTAL FUNDS PROVIDED	\$ 2,524,720	\$ 1,796,415
Application of Funds:		
Additions to transportation properties	\$ 485,841	\$ 777,812
First Mortgage Bonds acquired	1,147,000	745,000
Equipment obligations retired	8,125	32,500
Increase in other assets and deferred charges	440,429	-
Decrease in other liabilities and deferred credits	-	371,717
Increase (decrease) in working capital	443,325	(130,614)
TOTAL FUNDS APPLIED	\$ 2,524,720	\$ 1,796,415
Increase (Decrease) in Working Capital (Including Long-Term Debt Due Within One Year):		
Current Assets:		
Cash and temporary cash investments	\$ (254,672)	\$ (655,931)
Receivables and accruals	(82,154)	609,380
Prepayments	(32,542)	(18,270)
Material and supplies	330,661	280,602
TOTAL	(38,707)	215,781
Current Liabilities:		
Note payable	685,951	-
Accounts payable and accruals	(83,035)	294,369
Federal income taxes	-	-
Other taxes accrued	(338,255)	43,704
Long-term debt due within one year	(738,375)	1,000
Other	(8,318)	7,322
TOTAL	(482,032)	346,395
Increase (Decrease) in Working Capital	\$ 443,325	\$ (130,614)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Statement Presentation

Accounts of the Company are maintained in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission which substantially conform with generally accepted accounting principles.

The principal business of the Company is providing railroad terminal and switching facilities and services to domestic railroad corporations and to the shippers of such railroad corporations. A substantial part of the services rendered by the Company is in behalf of its shareholder railroad corporations which, under an operating agreement with the Company ("Operating Agreement"), have operating rights for the movement of their trains by the Company.

The Company's terminal operations are generally classified either as owner lines operations or Company railway operations. The total expenses allocated to owner lines operations are billed to the shareholder railroad corporations on an actual cost basis. A summary of such operations for 1977 and 1976 follows:

	1977	1976
Railway operating expenses	\$ 8,279,859	\$ 7,141,962
Railway tax accruals	1,111,502	972,179
Interest and other fixed charges	995,301	957,920
Other	<u>(220,528)</u>	<u>(153,866)</u>
Total billed to shareholder railroad corporations	<u>\$ 10,166,134</u>	<u>\$ 8,918,195</u>

The terminal railroad facilities and related services for Company railway operations resulted in net losses of \$964,952 in 1977 and net revenues of \$133,427 in 1976; as prescribed by Section 281 of the Internal Revenue Code and the Operating Agreement, these results are incorporated in the Company's statement of account with its shareholder railroad corporations. Nonrelated terminal income and expenses of the Company are not included in the statement of account with its shareholder railroad corporations.

Properties, Depreciation, Maintenance and Repairs

Properties are stated substantially at cost. Replacement accounting is used principally for track accounts; under this method, betterments and additions are capitalized and are not depreciated. Replacements in kind and retirements are charged to expense.

Additions, renewals and betterments of all other classes of property are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment or depreciable road property is sold or retired, the cost less salvage value is charged to accrued depreciation.

Depreciation is generally provided on the straight-line method. The average annual depreciation rates are approximately 1.54% for depreciable road properties and 3.37% for rolling stock.

Investment Tax Credit

The Company uses the "flow-through" method of accounting for investment tax credits.

Material and Supplies

Material and supplies, consisting primarily of fuel oil and replacement or repair parts for equipment and road property, are stated at average cost.

2. RECEIVABLES

Included in other assets at December 31, 1977 and 1976, are receivables of approximately \$779,000 and \$657,000, respectively, due from two former shareholder railroad corporations, Penn Central Transportation Company and Erie Lackawanna Railway Company, one shareholder railroad corporation, the Chicago, Rock Island and Pacific Railroad Company and, at December 31, 1977, a non-shareholder railroad corporation, the Chicago, Milwaukee, St. Paul and Pacific Railroad Company. Such receivables arose from transactions occurring prior to the respective dates that these companies entered into reorganization proceedings under Section 77 of the Federal Bankruptcy Act. The Company has filed claims for payment with the respective reorganization courts. The ultimate collectibility of these receivables is not presently determinable.

Also included in other assets as of December 31, 1977 are receivables of approximately \$227,000 due from Erie Lackawanna Railway Company arising from transactions subsequent to the date this company began proceedings under the Federal Bankruptcy Act and prior to April 1, 1976, the date this company ceased its railway operations under the Railroad Revitalization Regulatory Reform Act.

3. FEDERAL INCOME TAXES

There is no Federal income tax provision in 1977 and 1976 due primarily to investment tax credits.

For Federal income tax return purposes, the Company has available \$753,000 investment tax credit carryforward at December 31, 1977. The investment tax credits expire in varying amounts from 1978 to 1984. Such carryforward amount may decrease in the event of adverse settlement of tax litigation discussed in Note 9.

4. JOINT VENTURE

During 1977, the Company sold its interest in a joint venture partnership formed for the acquisition and development of land and the operation and management of improvements constructed thereon and recognized a gain of \$491,720 which is included in miscellaneous income. At December 31, 1976, the Company's original investment of cash and land of \$11,657 had been reduced to \$1 because of recorded net losses.

5. COMMITMENTS

The Company leases locomotives, trucks, and data processing equipment under operating leases which expire through 1982. Total rental expense charged to operations for such leases was \$462,759 and \$461,445 for the years 1977 and 1976, respectively. Minimum annual rental commitments at December 31, 1977 under present non-cancellable leases having an initial or remaining term of more than one year are as follows:

Years Ending December 31,	
1978	\$ 356,388
1979	331,399
1980	310,752
1981	249,695
1982	94,320
Total	<u>\$ 1,342,554</u>

6. RETIREMENT PLANS

The Company adopted a funded pension plan effective January 1, 1976 which provides benefits to eligible employees who retire on or after January 1, 1976 in addition to benefits received under the Railroad Retirement Act. Pension expense for this plan was \$144,360 and \$155,395 for 1977 and 1976, respectively, which includes amortization of prior service cost over thirty years. The actuarially computed value of vested benefits for this plan exceeded the total of the pension fund and balance sheet accruals by approximately \$969,000 as of January 1, 1976, the date of the most recent actuarial review.

The Company also charged to pension expense \$89,874 in 1977 and \$96,828 in 1976 for pension benefits paid to retired employees under the Company's unfunded supplemental retirement plan which was replaced by the above mentioned funded plan.

7. LONG-TERM DEBT

The First Mortgage Bonds and equipment obligations are collateralized by substantially all the properties of the Company.

Under the provisions of the indenture relating to First Mortgage Bonds, the Company is required to meet sinking fund requirements of \$745,000 annually. The Company reacquired bonds to meet the sinking fund requirements for 1977 and 1976. During the year ended December 31, 1977 the Company reacquired bonds to meet its 1978 sinking fund requirement of \$745,000, and \$402,000 of its 1979

requirement. Such bonds reacquired are pledged as collateral security to a \$685,951 short-term note payable to a bank with interest at such bank's prime rate.

Long-term debt due after one year matures as follows: 1979 through 1986, \$745,000 annually; 1987, \$17,870,000.

As prescribed in the operating agreement between the Company and the shareholder railroad corporations, such corporations, on a proportionate basis, have advanced funds to the Company for sinking fund installments, equipment obligations, and the cost of capital improvements. Such advances, aggregating \$10,285,864 and \$9,540,864 at December 31, 1977 and 1976, respectively, will be repaid when funds are available in the proportion and in the same order of time as advances were made.

8. CORPORATE STRUCTURE

The Company was organized under the General Laws Authorizing the Formation of Railroad Companies in the State of Illinois passed in the year 1882. Date of incorporation was November 22, 1882. Control of the Company is based on purchases of capital stock. At December 31, 1977, such stock is held by eleven railroad corporations:

Name of Security Holders	Number of Shares
Atchison, Topeka & Santa Fe Ry Co.	2,400

Burlington Northern, Inc.	2,400
Chesapeake & Ohio Ry Co.	2,400
Chicago, Rock Island & Pacific RR Co.	2,400
Consolidated Rail Corp.	4,800
Grand Trunk Western RR Co.	2,400
Illinois Central Gulf RR Co.	2,400
Louisville & Nashville RR Co.	4,800
Missouri Pacific RR Co.	2,400
Norfolk & Western Ry Co.	2,400
Soo Line RR Co.	2,400

Total shares issued and outstanding	31,200
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9. CONTINGENCIES

The Company is currently involved in litigation with the United States of America and the Internal Revenue Service covering taxable years 1967 and 1969. The possible adverse results of this action could be an additional tax liability of approximately \$305,000 plus interest. Under Section 281 of the Internal Revenue Code and the Operating Agreement, there would be no adverse effect on the financial position of the Company since reinstated income would be charged back to the shareholder railroad corporations.

For taxable years 1972 through 1974, the Company was assessed and paid during 1976 approximately \$222,000, net of investment tax credits of approximately \$206,000. Such amount is included in other deferred charges pending the ultimate outcome of litigation discussed above.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Directors and Shareholders of
The Belt Railway Company of Chicago

We have examined the balance sheet of The Belt Railway Company of Chicago as of December 31, 1977 and 1976, and the related statements of income, retained income, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 2 to the financial statements, the Company has receivables of approximately \$779,000 and \$657,000 at December 31, 1977 and 1976, respectively, due from four railroad corporations who have filed for reorganization proceedings under the Federal Bankruptcy Act. The ultimate collectibility of these receivables is not presently determinable.

In our opinion, subject to the effects, if any, on the financial statements of the ultimate collection of the receivables discussed in the preceding paragraph, the above-mentioned financial statements (pages 6 through 13) present fairly the financial position of the Company at December 31, 1977 and 1976, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

HASKINS & SELLS

Chicago, Illinois
March 28, 1978

ROAD AND EQUIPMENT PROPERTY

	Balance December 31, 1976	1977		Balance December 31, 1977
		Additions & Better- ments	Retire- ments	
ROAD:				
Engineering	\$ 652,072	\$ (763)	\$ 855	\$ 650,454
Land for transportation purposes	9,675,914	2,700	-	9,678,614
Grading	4,397,683	-	-	4,397,683
Bridges, trestles and culverts	1,924,608	-	-	1,924,608
Ties	1,033,020	-	196	1,032,824
Rails	2,992,930	191,054	170	3,183,814
Other track material	2,438,049	199,337	19,266	2,618,120
Ballast	600,298	-	-	600,298
Track laying and surfacing ...	1,093,319	5,305	168	1,098,456
Fences, snowsheds and signs ...	13,083	-	-	13,083
Station and office buildings	1,156,064	-	-	1,156,064
Roadway buildings	87,891	-	-	87,891
Water stations	66,317	-	-	66,317
Fuel stations	65,376	-	-	65,376
Shops and engine houses	739,668	-	-	739,668
Wharves and docks	40,369	-	-	40,369
Communication systems	345,736	-	-	345,736
Signals and interlockers	1,713,315	347	-	1,713,662
Power plants	55,016	-	-	55,016
Power-transmission systems ...	173,883	(2,584)	-	171,299
Miscellaneous structures	70,244	-	-	70,244
Roadway machines	490,609	18,261	2,461	506,409
Roadway small tools	13,790	-	13,790	-
Public improvements - Construction	706,091	-	-	706,091
Other expenditures - road	524	-	524	-
Shop machinery	404,532	3,283	-	407,815
Power plant machinery	373,687	-	-	373,687
TOTAL ROAD	31,324,088	416,940	37,430	31,703,598
EQUIPMENT:				
Diesel locomotives	5,659,844	38,048	11,573	5,686,319
Freight-train cars	234,584	-	-	234,584
Work equipment	121,158	-	-	121,158
Miscellaneous equipment	274,726	30,853	19,563	286,016
TOTAL EQUIPMENT	6,290,312	68,901	31,136	6,328,077
TOTAL ROAD AND EQUIPMENT	\$ 37,614,400	\$ 485,841	\$ 68,566	\$ 38,031,675

EQUIPMENT OWNED

	On Hand Dec. 31, 1976	Changes During Year		On Hand Dec. 31, 1977
		Added	Retired	
Locomotives:				
Diesel - Switching (A) units	35			35
Diesel - Switching (B) units	7			7
Total	42			42
Freight-train Cars:				
Caboose	28			28
Box	-			-
Total	28			28
Work Equipment:				
Wrecking derrick	1			1
Jet snow blower	1			1
Burro crane	1			1
Other maintenance cars	11			11
Total	14			14
Miscellaneous Equipment:				
Automobiles (passenger)	11	3	3	11
Trucks (maintenance)	30	2	3	29
Trailers (utility)	3			3
Total	44	5	6	43

FUNDED DEBT

First Mortgage bonds issued by Bankers
Trust Company, New York, Trustee:

Total amount authorized \$ 75,000,000

Sinking Fund Bonds 4-%%, Series "A" issued
August 15, 1962, due August 15, 1987:

For purchase of properties formerly leased from
the Chicago and Western Indiana Railroad
Company

\$ 36,662,852

Expended for financing expenses and for
additions and betterments subsequent to
August 15, 1962

587,148

TOTAL ISSUED

\$ 37,250,000

Less: Redeemed and cancelled \$ 12,675,000

Redeemed and held by or for Company 1,147,000

13,822,000

TOTAL OUTSTANDING AT DECEMBER 31, 1977

\$ 23,428,000

OPERATING EXPENSES

Year ended December 31	1977	1976	Increase or (Decrease)
MAINTENANCE OF WAY AND STRUCTURES:			
Superintendence	\$ 319,621	\$ 310,544	\$ 9,077
Roadway maintenance	149,026	143,996	5,030
Bridges, trestles and culverts	64,962	85,618	(20,656)
Ties	218,247	245,916	(27,669)
Rails	531,427	473,421	58,006
Other track material	439,143	447,919	(8,776)
Ballast	87,944	82,439	5,505
Track laying and surfacing	1,172,170	1,045,084	127,086
Fences, snowsheds, and signs	11,739	14,668	(2,929)
Station and office buildings	83,876	66,866	17,010
Roadway buildings	19,165	13,913	5,252
Water stations	2,652	-	2,652
Fuel stations	1,406	1,385	21
Shops and enginehouses	41,547	24,502	17,045
Communication systems	122,156	111,251	10,905
Signals and interlockers	716,105	597,343	118,762
Power plants	-	132	(132)
Power-transmission systems	11,901	326	11,575
Miscellaneous structures	6,377	1,600	4,777
Road property - Depreciation (Leased) ..	26	26	-
Road property - Depreciation (Owned)....	180,112	176,112	4,000
Retirements - Road	(29,306)	(13,156)	(16,150)
Roadway machines	54,500	47,448	7,052
Dismantling retired road property	21,325	34,946	(13,621)
Small tools and supplies	80,305	86,543	(6,238)
Removing snow, ice, and sand	200,865	85,007	115,858
Public improvements - Maintenance	71,440	51,952	19,488
Injuries to persons	8,834	44,584	(35,750)
Insurance	104,000	110,370	(6,370)
Stationery and printing	2,447	1,903	544
Employees health and welfare benefits....	132,978	129,931	3,047
Other expenses	2,133	3,088	(955)
Maintaining joint tracks, yards and other facilities - Dr.	212,661	170,279	42,382
Gross total	5,041,784	4,595,956	445,828
Maintaining joint tracks, yards and other facilities - Cr.	2,163,347	2,053,751	109,596
Net - Belt Railway- Separate operation	\$ 2,878,437	\$ 2,542,205	\$ 336,232
Ratio to operating revenues	15.56	13.59	1.97

OPERATING EXPENSES - continued

Year ended December 31	1977	1976	Increase or (Decrease)
MAINTENANCE OF EQUIPMENT:			
Superintendence	\$ 151,204	\$ 159,054	\$ (7,850)
Shop machinery	4,508	4,066	442
Power-plant machinery	757	-	757
Shop and power plant machinery - Depreciation	18,303	16,780	1,523
Diesel locomotives - Repairs	1,576,643	1,247,799	328,844
Freight-train cars - Repairs	882,649	794,534	88,115
Work equipment-Repairs	13,046	11,521	1,525
Miscellaneous equipment - Repairs	73,759	57,547	16,212
Dismantling retired equipment	-	-	-
Equipment - Depreciation	211,259	253,722	(42,463)
Injuries to persons	6,885	5,022	1,863
Insurance	132,815	144,924	(12,109)
Stationery and printing	5,946	7,065	(1,119)
Employees health and welfare benefits....	92,328	90,330	1,998
Joint maintenance of equipment expenses - Dr.	52,703	62,080	(9,377)
Other expenses	19,286	940	18,346
Gross total	3,242,091	2,855,384	386,707
Joint maintenance of equipment expenses - Cr.	822,956	637,197	185,759
Net - Belt Railway - Separate operation	\$ 2,419,135	\$ 2,218,187	\$ 200,948
Ratio to operating revenues	13.08	11.86	1.22
TRAFFIC:			
Advertising	\$ 901	\$ 276	\$ 625
Stationery and printing	7,457	2,267	5,190
Gross total	8,358	2,543	5,815
Charged to Owner Line operation	321	201	120
Net - Belt Railway - Separate operation	\$ 8,037	\$ 2,342	\$ 5,695
Ratio to operating revenues	.04	.01	.03

OPERATING EXPENSES - continued

Year ended December 31	1977	1976	Increase or (Decrease)
TRANSPORTATION - RAIL LINE:			
Superintendence	\$ 766,188	\$ 711,189	\$ 54,999
Dispatching trains	189,327	176,413	12,914
Station employees	610,209	583,341	26,868
Weighing, inspection, and demurrage bureaus	12,343	10,433	1,910
Station supplies and expenses	34,080	29,583	4,497
Yardmasters and yard clerks	1,647,704	1,519,827	127,877
Yard conductors and brakemen	3,390,611	3,114,461	276,150
Yard switch and signal tenders	830,471	803,127	27,344
Yard enginemen	1,959,868	1,872,149	87,719
Yard switching fuel	915,470	782,593	132,877
Servicing yard locomotives	590,012	536,475	53,537
Yard supplies and expenses	1,649,326	1,463,737	185,589
Crossing protection	9,837	9,868	(31)
Communication system operation	2,049	1,862	187
Employees health and welfare benefits	701,153	651,405	49,748
Stationery and printing	45,044	50,033	(4,989)
Other expenses	5,821	8,357	(2,536)
Insurance	213,274	231,520	(18,246)
Clearing wrecks	119,900	75,526	44,374
Damage to property	13,819	24,294	(10,475)
Loss and damage - Freight	161,843	156,796	5,047
Injuries to persons	185,583	104,606	80,977
Operating joint yards and terminals - Dr	319,540	357,161	(37,621)
Gross total	14,373,472	13,274,756	1,098,716
Operating joint yards and terminals - Cr	4,738,692	3,944,635	794,057
Net - Belt Railway - Separate operation	\$ 9,634,780	\$ 9,330,121	\$ 304,659
Ratio to operating revenues	52.10	49.89	2.21

OPERATING EXPENSES - concluded

Year ended December 31	1977	1976	Increase or (Decrease)
GENERAL:			
Salaries and expenses of general officers	\$ 621,991	\$ 585,751	\$ 36,240
Salaries and expenses of clerks and attendants	644,305	613,917	30,388
General office supplies and expenses	270,703	263,773	6,930
Law expenses	120,619	100,643	19,976
Insurance	3,425	3,186	239
Employees health and welfare benefits	91,432	82,807	8,625
Pensions	234,781	237,073	(2,292)
Stationery and printing	41,999	31,531	10,468
Other expenses	64,540	58,567	5,973
General joint facilities - Dr.	1,211	(341)	1,552
Gross total	2,095,006	1,976,907	118,099
General joint facilities - Cr.	760,707	666,492	94,215
Net - Belt Railway - Separate operation.	\$ 1,334,299	\$ 1,310,415	\$ 23,884
Ratio to operating revenues	7.21	7.01	.20
Total operating expenses	\$ 24,760,711	\$ 22,705,546	\$ 2,055,165
Total joint facility - credits	8,486,023	7,302,276	1,183,747
Total operating expenses - Belt Railway - Separate operation.	\$ 16,274,688	\$ 15,403,270	\$ 871,418
Ratio to operating revenues	87.99	82.36	5.63
Operating revenue per car (average)	\$ 39.97	\$ 37.10	\$ 2.87
Operating expense per car (average)	\$ 35.17	\$ 30.56	\$ 4.61

CARS HANDLED

Year ended December 31	1977		1976		Increase or (Decrease) Percent
	Cars	Percent	Cars	Percent	
<u>BELT SEPARATE OPERATIONS:</u>					
<u>Intermediate (Belt Handled):</u>					
Loaded Cars	123,123	26.61	130,223	25.84	(5.45)
Empty Cars	99,659	21.53	104,451	20.72	(4.59)
<u>Local (Belt Handled):</u>					
Loaded Cars	110,306	23.84	121,735	24.15	(9.39)
Empty Cars	110,099	23.79	120,223	23.85	(8.42)
<u>Bridge (By Owner Lines):</u>					
Loads and Empty Cars	19,566	4.23	27,413	5.44	(28.63)
TOTAL: (Belt Separate Operations).	462,753	100.00	504,045	100.00	(8.19)
<u>OWNER TO OWNER OPERATIONS:</u>					
<u>Cars interchanged directly between Owner Roads at Clearing and other yards - handled by Belt Railway Company</u>					
	420,732	50.66	366,169	41.53	14.90
<u>Cars handled by Owner Lines in direct movements over Belt Railway Company of Chicago</u>					
	409,728	49.34	515,605	58.47	(20.53)
TOTAL (Owner to Owner)	830,460	100.00	881,774	100.00	(5.82)
TOTAL Cars Handled	1,293,213	-	1,385,819	-	(6.68)

CARS HANDLED FOR LAST FIVE YEARS:

	1977	1976	1975	1974	1973
<u>Belt Separate Operations:</u>					
Intermediate - Loaded	123,123	130,223	132,028	174,564	151,251
Intermediate - Empty	99,659	104,451	109,484	148,399	127,560
Local - Loaded	110,306	121,735	128,575	140,942	162,521
Local - Empty	110,099	120,223	124,077	133,926	156,125
Bridge - Loads & Emptys	19,566	27,413	30,769	103,838	199,099
<u>Owner to Owner Operations:</u>					
Handled by Belt Railway	420,732	366,169	337,622	367,706	257,043
Handled by Owner Lines	409,728	515,605	653,403	793,693	770,356
TOTAL Cars Handled	1,293,213	1,385,819	1,515,958	1,863,068	1,823,955

MILEAGE OF TRACK OPERATED

Year ended December 31	1977				
	First Main	Second Main	Other Mains	Yard Tracks and Sidings	Total
Owned by The Belt Railway Co: Cragin to South Chicago including Clearing Yard.....	27.16	25.60	-	304.79	357.55
Leased from other companies: Chicago, Peoria & Western (Argo)	-	-	-	.52	.52
Trackage rights received from other companies: C. & W. I. R.R. Co. 80th St. to Pullman Jct.	3.56	3.47	-	.03	7.06
Pullman Jct. to South Deering.....	2.68	2.68	2.54	.38	8.28
South Deering to Burnham.....	4.76	4.76	.67	3.83	14.02
C.R.I. & P. R.R. - South Chicago	-	-	-	1.57	1.57
Con Rail - South Chicago	-	-	-	.09	.09
I.H.B. R.R. - 55th to Elsdon	1.41	1.40	-	-	* 2.81
B. & O. C.T. R.R. - Clearing to Proviso	9.05	8.09	-	13.70	30.84
B. & O. C.T. R.R. Southwest Division (Cicero District).....	-	-	-	6.08	6.08
N & W Railway - Ford Yd. & Lead	-	-	-	1.26	1.26
Calumet Western R.R. - 112th to 116th....	.51	-	-	-	.51
Con Rail & I.H.B. R.R. (Joint) 116th to 117th	.11	-	-	-	.11
Chicago, West Pullman & Southern - South Chicago	-	-	-	.09	.09
Total.....	22.08	20.40	3.21	27.03	72.72
Total Miles Operated.....	49.24	46.00	3.21	332.34	430.79

YARD TRACKS OWNED BY THE BELT RAILWAY CO. BUT NOT OPERATED

(Not included in above mileage)

<u>Leased To</u>	<u>Location</u>	<u>Miles of Road</u>
C.W.P. & S. R.R.	Warner Branch.....	1.46
C. & O. Ry. Co.....	Rockwell St. Yard.....	<u>10.91</u>
	Total	12.37

TRACAGE RIGHTS GRANTED OTHER COMPANIES

<u>Company</u>	<u>Location</u>	<u>Miles of Road</u>
I.H.B. R.R.	Elsdon Branch	*1.51
E.J. & E. Ry	South Chicago to Mill Gate & South Deering.....	<u>3.40</u>
	Total	4.91

*Trackage Rights Not Exercised.